



# Preferential Trade Agreements in the era of SDGs

Jaime de Melo

FERDI and Université de Genève

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# OUTLINE

- ❑ Evaluation of EPAs (summary)
- ❑ A Primer on African RTAs
- ❑ Sustainability Provisions in PTAs
  - Environmental Provisions in African PTAs
  - Coverage of Provisions and enforceability EU-US PTAs
- ❑ Elusive Doha (2001)-EGA (2014-?)
  - Negotiations: submissions of EG Lists
  - Mercantilism at work
  - Conclusion: Why non-participation by developing countries
- ❑ Evidence on Trade in Egs
  - Outcome based (GHG emissions)
  - Bilateral Trade in Egs (more intense with lower tariffs and with convergence in regulatory measures)

# Evaluation of EPAs

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The African Economic Partnership Agreements with the EU:  
Reflections inspired by the case of the East African Community ☆



Jaime de Melo <sup>a</sup>, Julie Regolo <sup>b</sup>

<sup>a</sup> FERDI, 63, boulevard François-Mitterrand, 63000 Clermont-Ferrand, France

<sup>b</sup> University of Geneva, 40 boulevard du Pont d'Arve, 1205 Genève, Switzerland

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## Abstract

This paper appraises the likely effects of the Economic Partnership Agreement (EPA) between the East African Community (EAC) and the European Union (EU). Customs data are used to estimate the revenue and welfare effects of an EPA with and without an exception list. Revenue and welfare effects are rather small. The paper then discusses the benefits that would have occurred had the EAC-EU protocol on rules of origin been simplified and made more compatible with the multilateral trading system. An inclusion of services would have also helped achieve the objective of increased competitiveness in goods trade, while the time table for tariff reduction in the EAC should have been shorter. The paper suggests in closing that the present appraisal is applicable also to the other African EPAs.

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*JEL classification:* F1; F4; O5

*Keywords:* Preferences; Regional integration; EPA

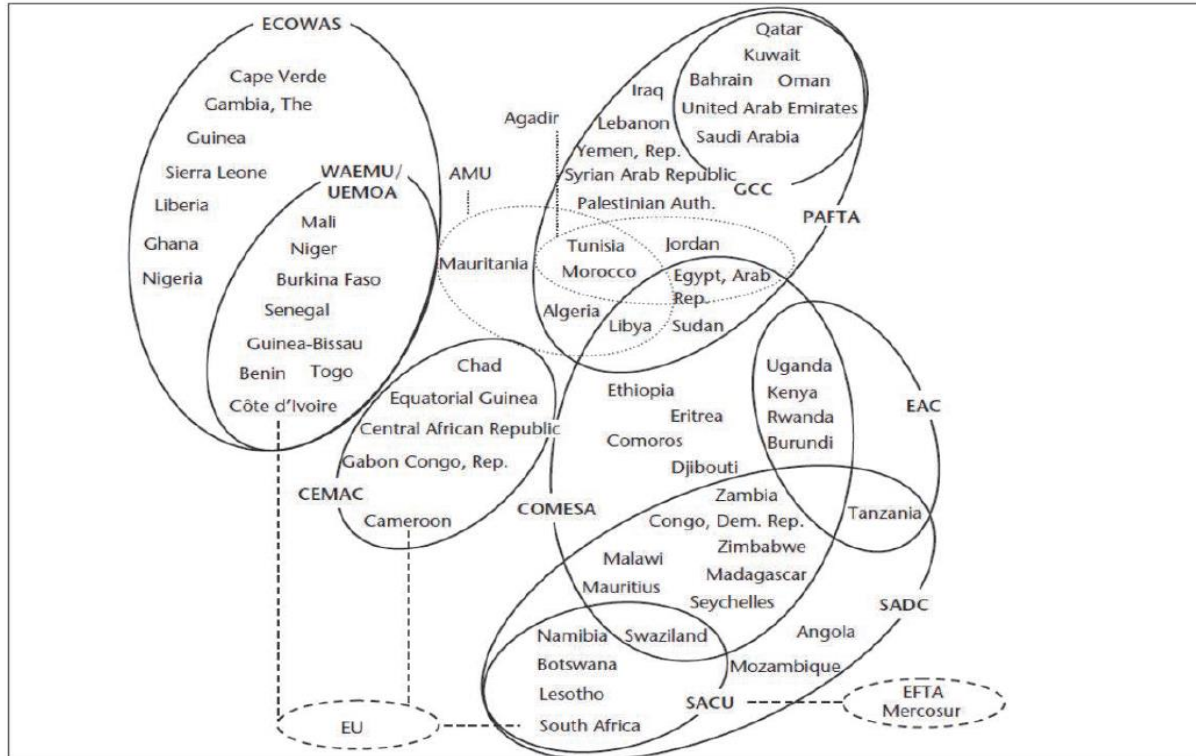
Policy brief associated with paper <https://www.theigc.org/wp-content/uploads/2015/03/De-Melo-Regolo-2014-Policy-Brief.pdf>

Blog-post appraisal of other African RTAs <https://www.theigc.org/blog/regional-trade-agreements-in-africa-success-or-failure/>

“A Primer” on African  
Regional Economic  
Communities (RECs)

# A Primer on African RTAs

Figure 1: Regional arrangements in Africa



Source: Acharya et al. (2011, Figure 2.18); WTO Secretariat.

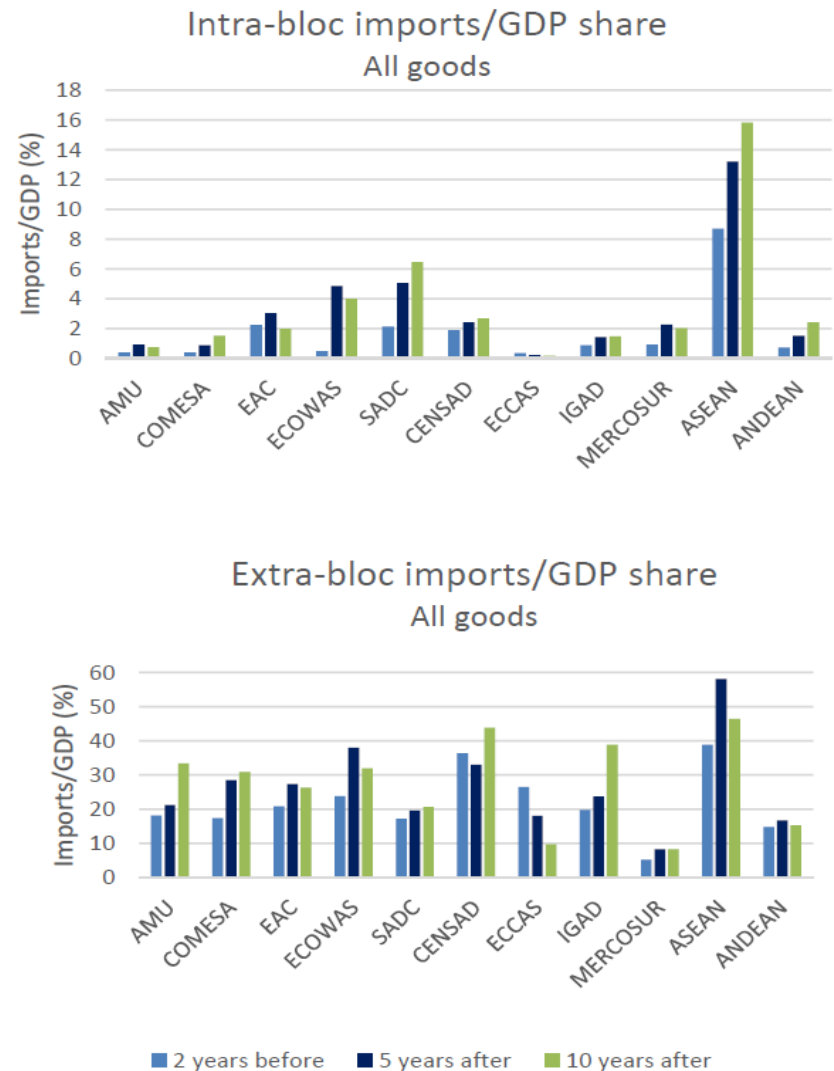
Note: AMU, Arab Maghreb Union; CEMAC, Economic and Monetary Community of Central Africa (Communauté Économique et Monétaire de l'Afrique Centrale); COMESA, Common Market for Eastern and Southern Africa; EAC, East African Community; ECOWAS, Economic Community of West African States; EFTA, European Free Trade Association; EU, European Union, GCC, Gulf Cooperation Council; Mercosur, Southern Cone Common Market; PAFTA, Pan-Arab Free Trade Area; SACU, Southern African Customs Union; SADC, Southern African Development Community; WAEMU/UEMOA, West African Economic and Monetary Union/Union Économique et Monétaire Ouest-Africaine.

AfcFTA will call for a harmonization of Rules of origin. A headache down the road

RECs have not been followed by increased intra-REC trade

but ASEAN was followed by increased intra-regional trade but not MERCOSUR, ANDEAN

Figure 1: Intra and extra-regional patterns: 2 years before and 5 and 10 years after integration (all goods)



Source: Authors' calculations using Comtrade (mirror data) (United Nations 2016) and World Development Indicators (GDP) data (World Bank 2016).

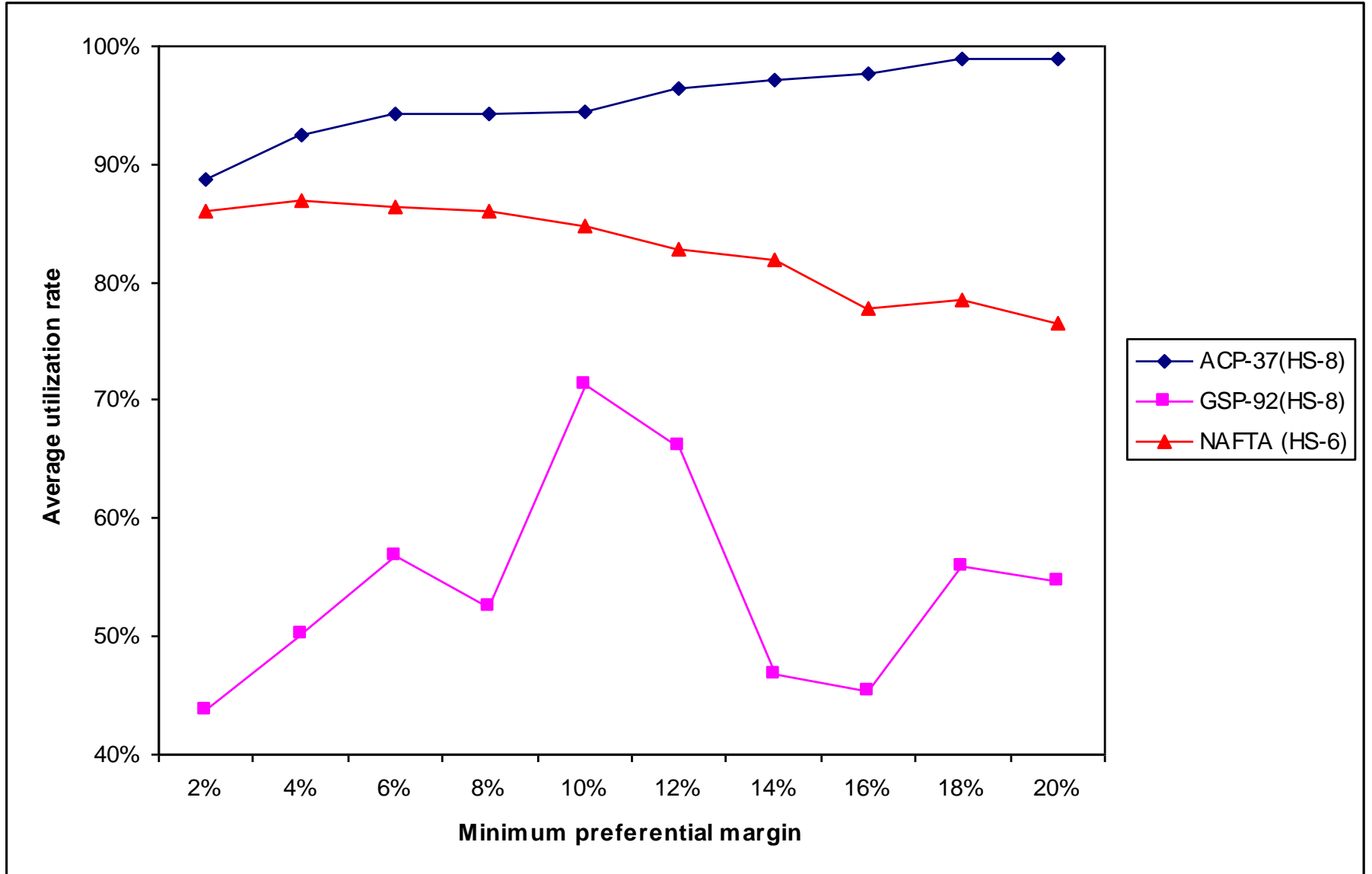
# Regime-wide Rules of Origin

(Product-specific not covered here)

Agreements	Calculation method for Value Content (VC)						
	Regional Content (RC) or Import Content (IC)			Valuation or the non-originating material (price basis)			
	RC	IC	RC and IC	FOB price (%)	FOB/Net (%)	ex-works price (%)	ex-works cost (%)
Columns	(1)	(2)	(3)	(4)	(5)	(6)	(7)
SADC	No	Yes	No	-	-	-	35
ECOWAS	Yes	No	No	-	-	-	30
EAC	Yes	No	No	35	-	-	-
GAFTA	Yes	No	No	-	40	-	-
COMESA	Yes	No	No	40	-	-	-
CEMAC	Yes	No	No	40	-	-	-
SACU	Yes	No	No	-	-	-	-
WAEMU	Yes	No	No	40	-	-	-
Comparators							
ASEAN							
ANDEAN							
MERCOSUR							

# Preference margins and PURs

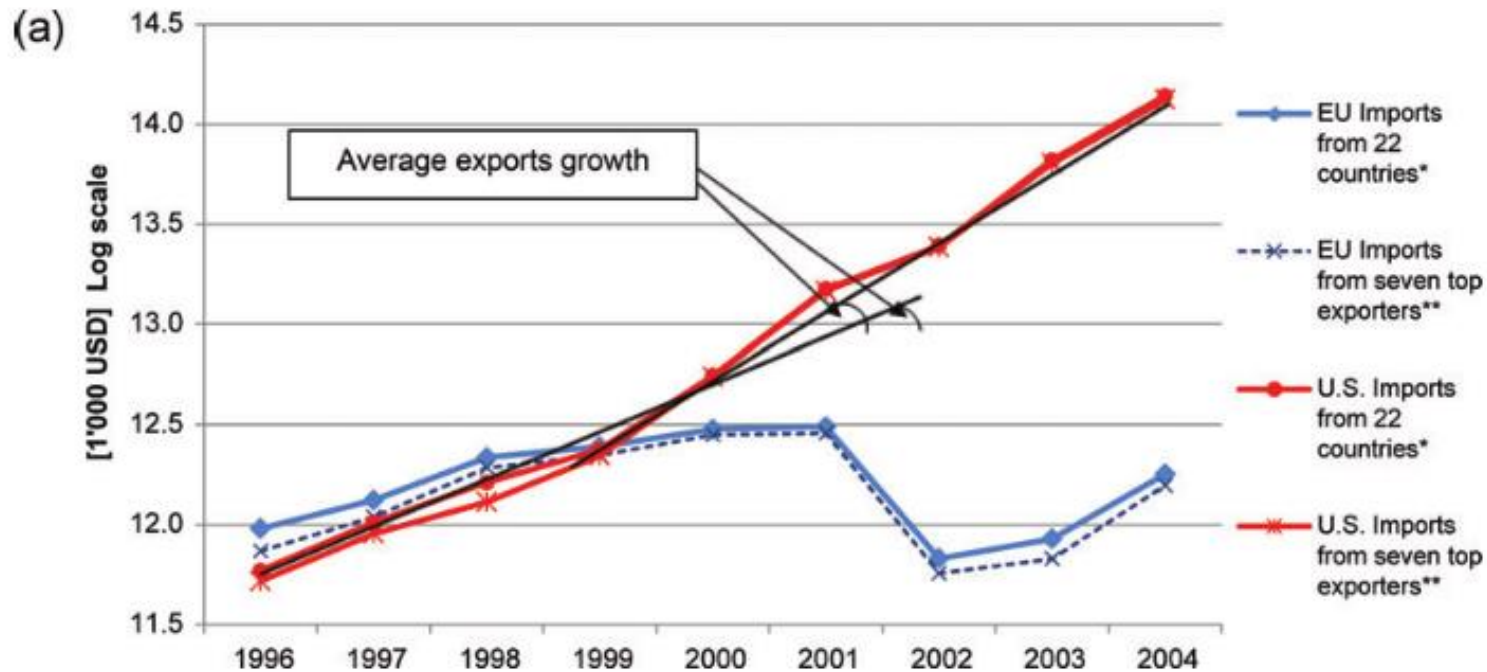
(Preference Utilization rates)





# Moving to the single transformation rule: AGOA vs EBA

FIGURE 1 (a). Apparel Exports of 22 Countries Benefiting from the AGOA Special Rule by 2004



Notes: Yearly data from 1996 to 2004 are presented. The 22 sub-Saharan countries benefiting from the AGOA Special Rule by 2004 as well as ACP are Benin, Botswana, Cameroon, Cape Verde, Ethiopia, Ghana, Kenya, Lesotho, Madagascar, Malawi, Mali, Mozambique, Namibia, Niger, Nigeria, Rwanda, Senegal, Sierra Leone, Swaziland, Tanzania, Uganda, and Zambia. The top seven exporters are Botswana, Cameroon, Ghana, Kenya, Lesotho, Madagascar, Namibia, Nigeria, and Swaziland.

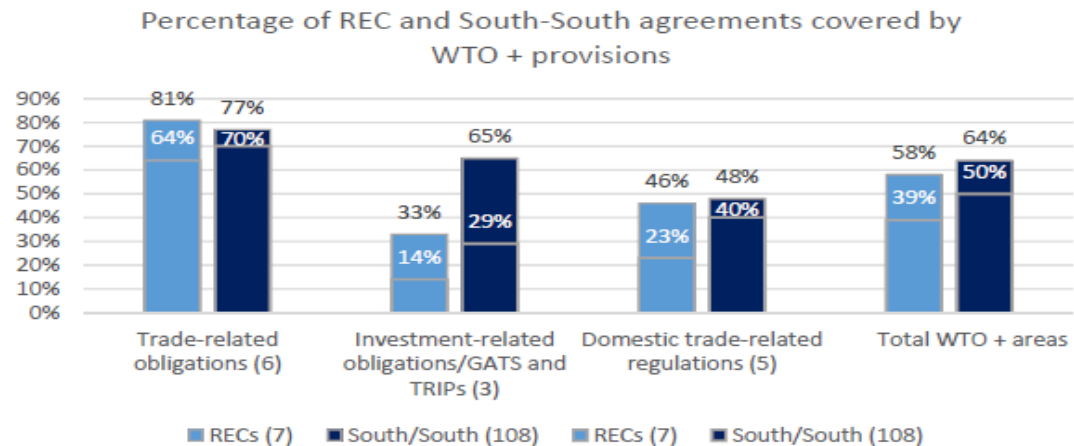
# DEPTH of RTAs

## 7 RECs vs 108 S-S FTAs

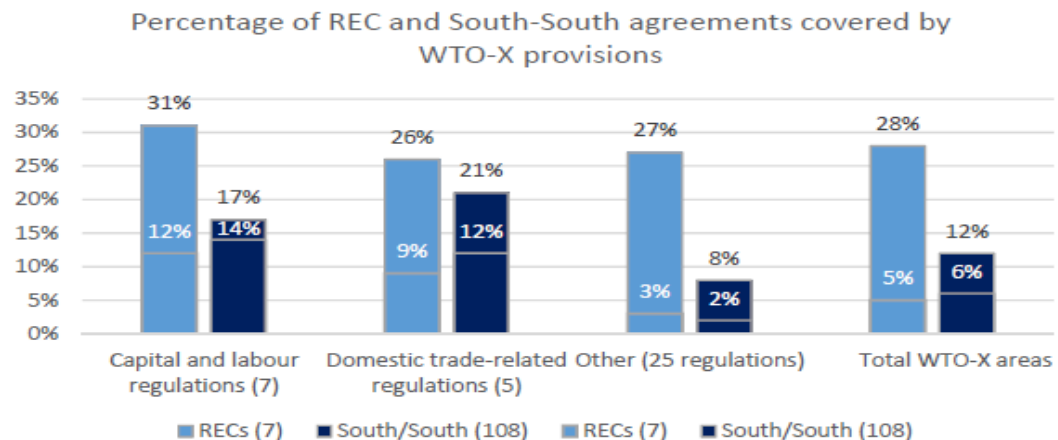
Coverage of WTO+ measures

Coverage of WTO-X Measures (those that go beyond WTO agenda)

4(a) Average coverage of WTO+ provisions by category of obligations:



4(b) Average coverage of WTO-X provisions by category of obligations:

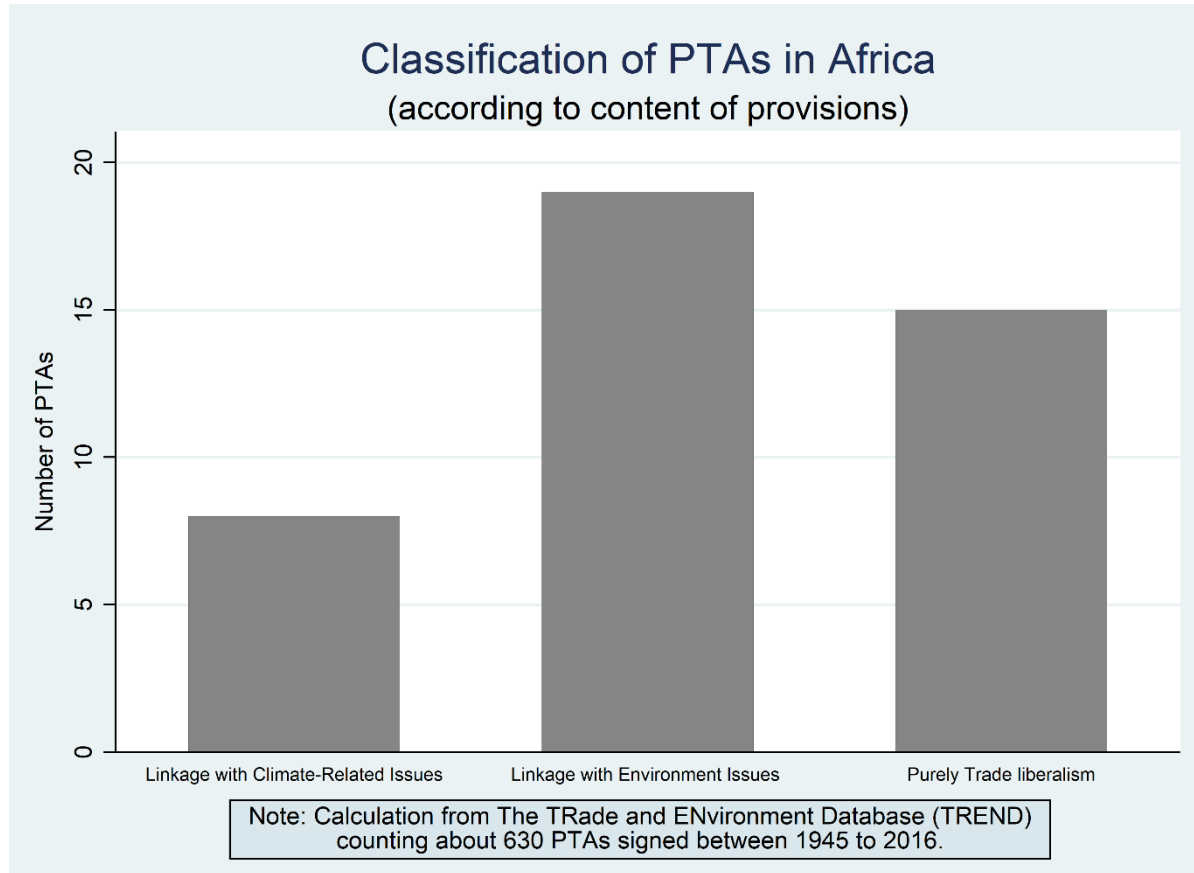


**Note:** African RTAs: CEMAC, COMESA, EAC, ECOWAS, SACU, SADC, and WAEMU. Percentages are by category of provisions covered distinguishing those that are legally enforceable. For example, in Figure 4(b) for the 7 African RECs, of a total of 49=7X7 possible coverage for capital and labour requirements, 31 per cent (i.e. 15) provisions are covered with 12 per cent (i.e. 6) deemed legally enforceable..

**Source:** Authors' calculations from data base in Hoffman et al. (2017).

FTAs in the era SDGs

# Environmental Provisions across 34 African RTAs





# Coverage of Sustainability Provisions in PTAs

Table 3 - Trends in Provision of Environmental Sustainability Standards in RTAs

	Main Environmental Provisions											Incorporation				Enforcement through Dispute Settlement*	International Standards
	Ozone Layer	Fisheries & aquaculture	Environmental Protection & Conservation	Marine Environ.	Endangered species	Sustainable use of resources	Promotion of SD	Cooperation	Biodiversity & Biotechnology	Forest & Mining	Scientific & technical information	Preamble	General provisions	Chapter on Environment	Chapter on SD		
US	•	•	•	•	•				•			•		•		•	MEAs
EU		•	•							•	•				•	•	MEAs
ASEAN			•						•	•		•					MEAs
Australia	•		•	•	•				•			•		•			MEAs
Japan		•	•		•				•	•		•	•				MEAs
Korea, Rep. of			•			•						•	•		•		MEAs
China			•				•	•				•	•				MEAs
Viet Nam			•			•						•	•		•		MEAs

Note: A dot represents the fact that a reference is made in at least one agreement of that country.

Source: Author interpretation of RTA texts; EU, US & Japan interpretations from Draper, Khumalo and Tigere (2017)

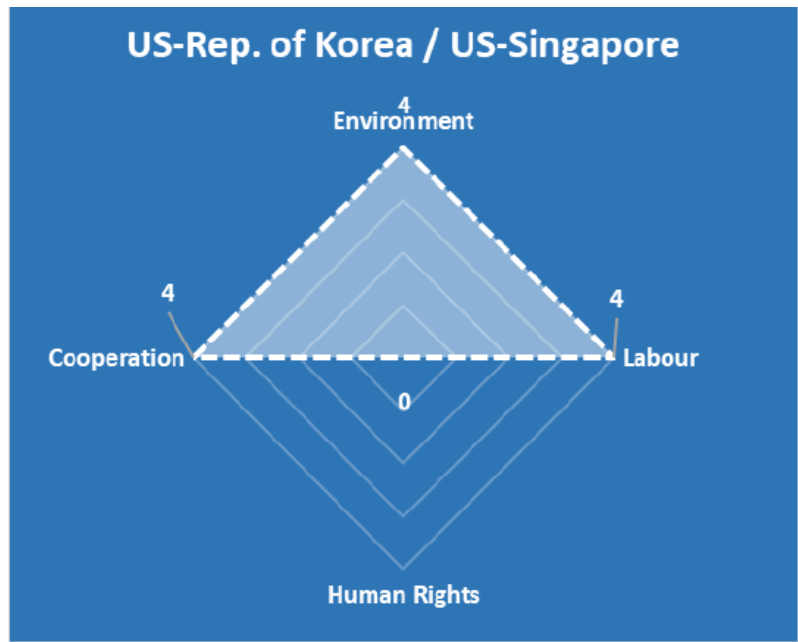
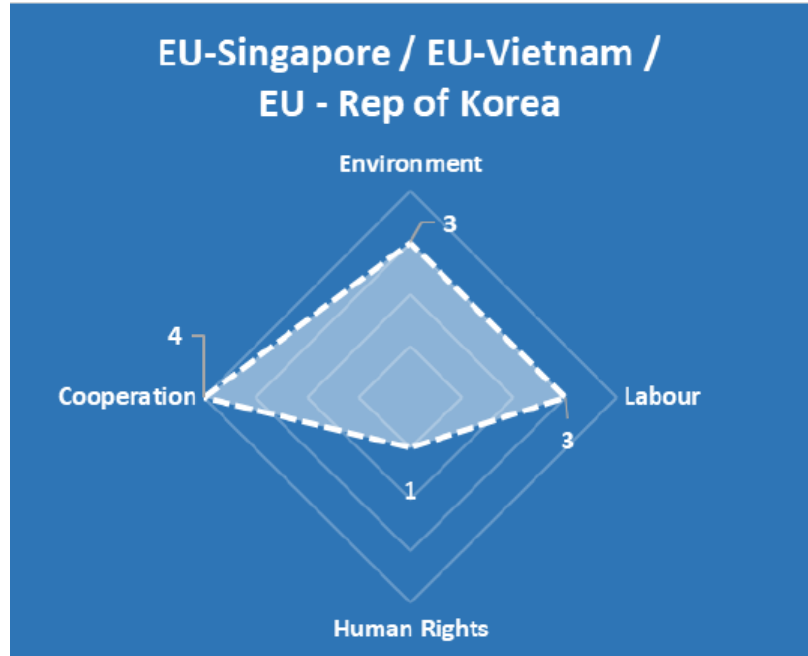
A dot indicates that at least one reference is made in at least one agreement of that country

Source: Baker (2018)

# Enforceability of Sustainability Provisions in EU and US PTAs

Table 4 - Enforceability Scale for Sustainable Development Provisions in RTAs

Scale	Meaning
0	No reference is made to the agreement
1	Vague reference is made, mainly in terms of cooperation
2	Topic addressed by the agreement, but mainly in non-binding terms, and it is excluded from the DS
3	Non-legally binding language, subject to chapter-specific dispute settlement, but the panel's decision is non-binding
4	Legally binding provisions, subject to the dispute settlement and sanctions are foreseen



Source: Baker (2018)

# Elusive Doha (2001)-EGA (2014-?)

## The expected Triple win

1. Trade: Decrease cost of environmental technologies, stimulate innovation and transfer of technologies; protect resources
2. Developing countries: Access to HIC markets for Asian economies + higher-quality EGs on world markets for all developing countries  
⇒ Emissions ↓; Environment preserved for all
3. Our planet: At global level environment better preserved especially if wide definition of EGs

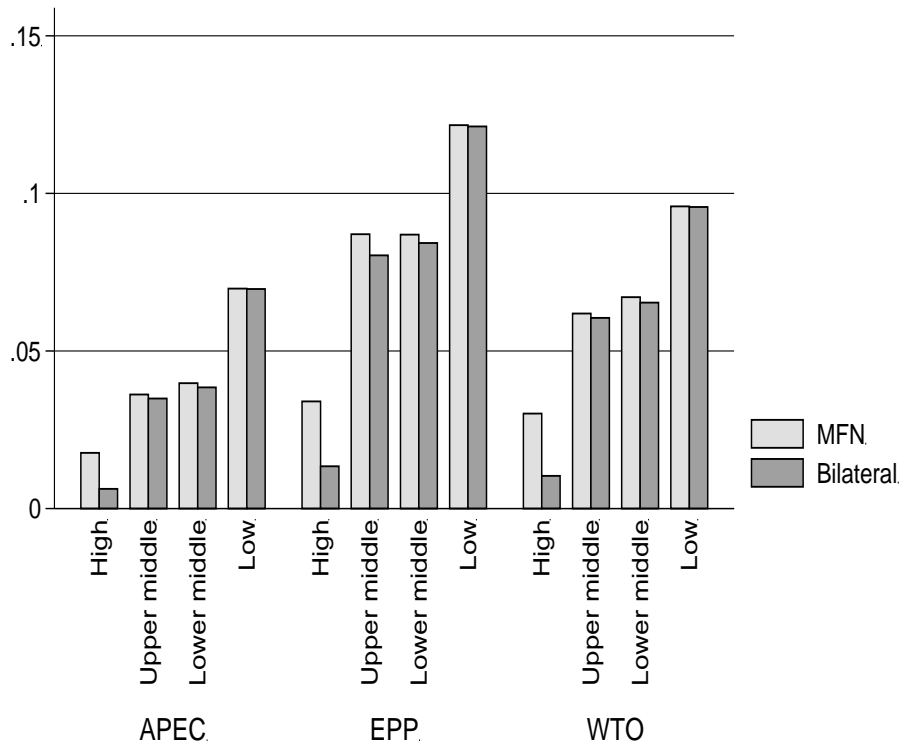
## The reality of the negotiations: Mercantilism at work !!!

- Reduction/elimination of barriers to trade in EGs But how defined (...by negotiators)? Project, request/offer, list (HS6)  
⇒ 18 years of wrangling at Doha/EGA ⇒ Only tariffs on agenda
- NTBs left off agenda
- Env. Services (ESs) not on agenda (though strong complementarity with EGs)  
⇒ A minima agenda at Doha, APEC, and EGA negotiations (2014)



# Applied Tariffs by lists and country groups

(<10% except LIC)

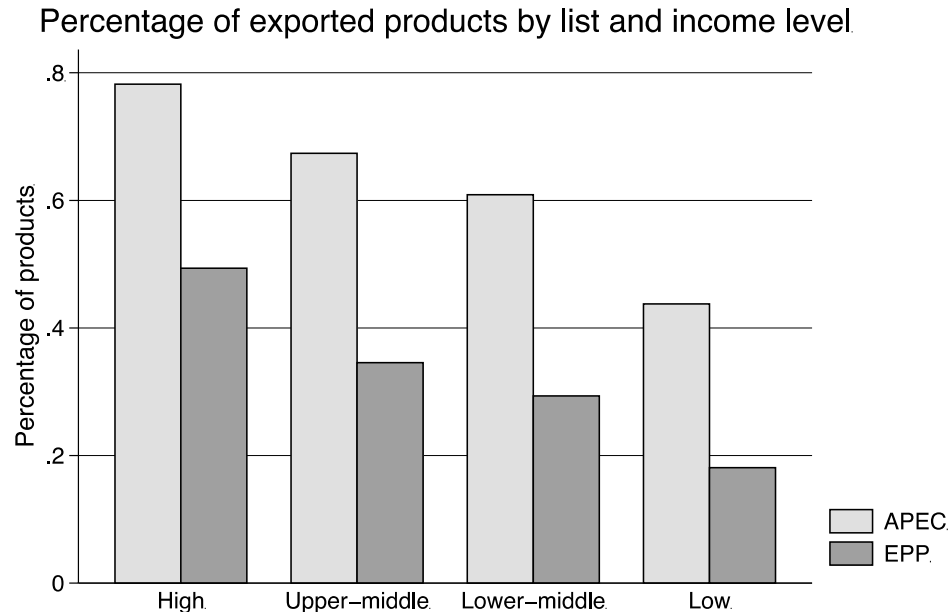


## Patterns

1. Tariffs on EGs lower than non-EGs for all lists
2. Very little on the table for HICs
3. Tariffs increase for all lists  
HICs → LICs
4. Only LIC group expected to have non-negligible increase in Trade flows
5. Only HICs have reduced applied tariffs on EGs via RTAs

- APEC (54): primarily GEM (end-of-pipe)
- EPP(104): Environmentally Preferable Products
- WTO (411): Compendium of all HS6 products submitted by countries participating

# Exports by EG list (APEC and EPP)

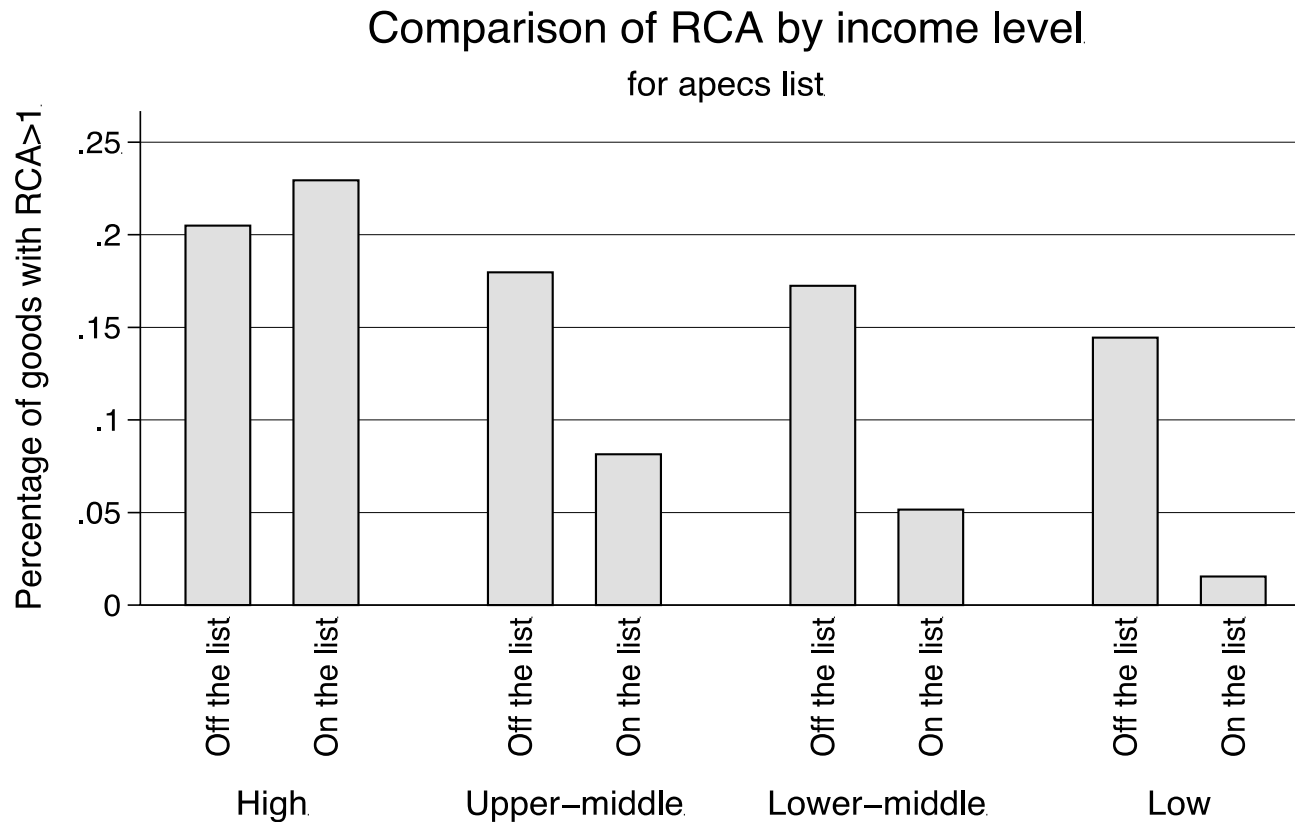


## Patterns

- HICs chose EGs they exported
- Developing countries would do better on EPP list
- ...but still less with only between 20% and 40% of goods on EPP list that are exported.

# Mercantilism at work (1)

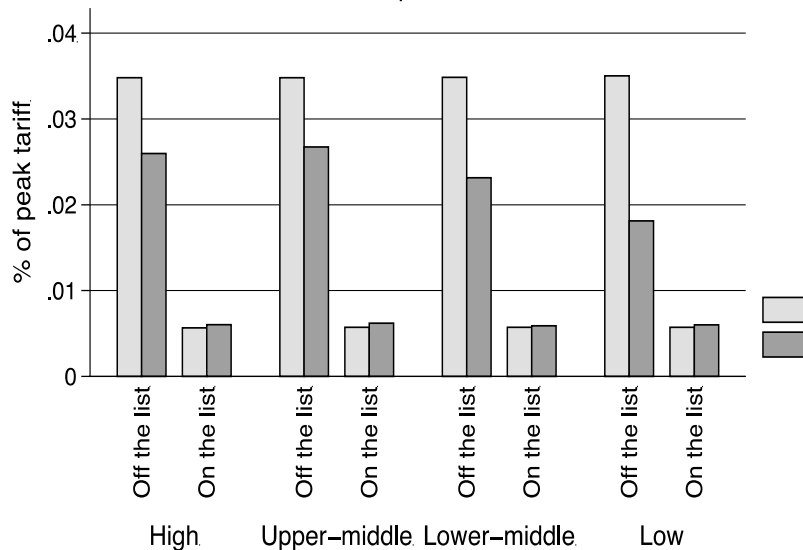
- For APEC list, probability of  $RCA > 1$  larger for goods on list, but only for HICs



# Mercantilism at work (2)

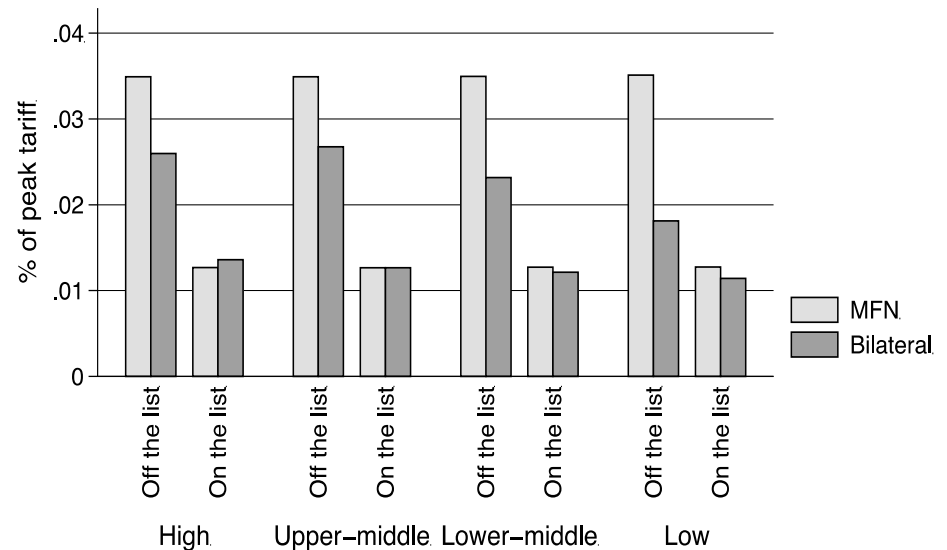
- Insignificant tariff peaks on both lists
- ...but lower on EPP list (difference reflecting APEC list concentrates on intermediate goods)
- Conclusion: Not much on the negotiating table

Percentage of goods with peak tariff.  
for apec list



Note: A peak tariff is defined a tariff higher than three times the country's average MFN;

Percentage of goods with peak tariff.  
for EPP list



Note: A peak tariff is defined a tariff higher than three times the country's average MFN;

# Conclusion: Why non-participation by developing countries.

1. Lists drawn by HICs/UMICs (APEC(54)/CLEG(248)/ WTO(411)). The lists reflect comparative advantage of HICs. Lists systematically exclude goods with tariff peaks (confirms with mercantilistic behavior by negotiators).

1. Fear by developing countries of large responses on import side but low on export side. (high tariffs and low RCA)

2. Grow up first, clean up later' (get a larger home market after environmental regulations create a market for EGs with lower price level because of expanded bundle of goods ('love of variety' mechanisms)

3. Stay on sidelines: small stakes (low tariffs of HICs  $\Rightarrow$  little market access) + avoid dealing with 'like products' and PPMs at WTO

# Evidence From Gravity models (1)

- Strict environmental policies associated with RCA in EGs.
- Identification via policy changes (e.g. KP).  
Environmental policies affect trade flows. Aichele and Felbelmayer (2015)
- Identification by gravity models: RTAs with environmental provisions have better outcomes on emissions (Bhagdadi et al.)
- Emissions gap for GHGs emissions per capita are smaller for countries that engage in bilateral trade in EGs (Tamini and Sorhgo (2017)).

## (New) Evidence from Gravity Models (2)

- Standard structural gravity model in cross section
- With an interaction between trade policy variables and EG
- Estimated with PPML

$$\begin{aligned} X_{ij}^k = & \alpha_{tariff} \log tariff_{ij}^k + \alpha_{tariff-EG} (\log tariff_{ij}^k) EG^k \\ & + \beta_{NTB} \log(RO_{ij}^k) + \beta_{NTB-EG} \log(RO_{ij}^k) EG^k \\ & + \gamma Bil_{ij} + \gamma_i^k \gamma_j^k + \mu_{ij}^k \end{aligned} \quad (1)$$

- We expect a positive coefficient on regulatory overlap and a negative coefficient on tariffs

# Evidence on Environmental Policies (3)

- We use comprehensive bilateral tariffs data provided by ITC
- NTMs are accounted for by using a regulatory overlap measure adapted from Knebel and Peters (2018)

$$RO_{ij} = \frac{\sum_{k=0}^K \sum^M NTM_{im}^k NTM_{jm}^k}{\sum_{k=0}^K \sum^M NTM_{jm}^k} \quad (2)$$

- where  $i, j$  index exporter and importers respectively,  $k$  index goods and  $m$  index NTM
- Only NTMs from the "Process" and "Products" categories defined by Ederington and Ruta (2016) are considered



# Evidence From Gravity Model (3)

List EG:	(1) APEC(54)	(2) WTO(410)	(3) EPP(106)
Log(Tariffs)	-6.831*** (0.335)	-6.544*** (0.311)	-6.788*** (0.333)
Log(Tariffs)*EG	2.347** (1.154)	-0.638 (0.735)	-3.233* (1.774)
Log(Reg. Overlap)	0.265*** (0.0699)	0.221*** (0.0821)	0.259*** (0.0685)
Log(Reg Overlap)*EG	-0.303*** (0.112)	0.136 (0.138)	-0.429* (0.225)

Bilateral control variables are omitted in the table to save space

Robust standard errors in parentheses

\*  $p < 0.1$ , \*\*  $p < 0.05$ , \*\*\*  $p < 0.01$

# Conclusions

- Superior environmental outcomes in terms of GHG emissions per capita for countries that trade in Egs
- MRAs and regulatory convergence helpful to boost trade in EGs

## **A successful EGA could deliver a triple win**

- Wrangling over negotiations for nearly 20 years
- Unfortunately agenda lacks ambition
- but success is still a key ingredient for transition to green development path
- ...and to prevent collision of WTS and climate regime

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